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SUBJECT: ARMENIA NEWS HIGHLIGHTS

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(U) Sensitive but unclassified. Please protect accordingly.

¶1. This is the inaugural issue of a new, periodic digest of news events which we hope will inform, educate, and perhaps occasionally amuse our readership.

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¶3. (SBU) CHIEF PROSECUTOR KILLED IN VANADZOR

The chief prosecutor of Lori marz was shot to death in the regional capital of Vanadzor August 25. Albert Kazaryan was walking home from work just after midnight when an unidentified assailant fired four bullets into him. He died later in the hospital. Four shells from a makarov pistol were found at the murder site. President Kocharian said in a statement that he would personally oversee the investigation. Some accounts allege that Kazaryan was notoriously corrupt, while others suggest he was hated by prominent local figures for disrupting their own corrupt dealings.

¶4. (U) POLICE STOP OPPOSITION LEAFLETING

Police interfered with several opposition activists, among them Heritage parliamentarian Zaruhi Postanjyan, distributing leaflets August 18 to the participants and spectators at the opening of the Fourth Pan-Armenian Games. The opposition movement Aylenrank (Alternative) said that police detained three of its members and later released them after confiscating all the leaflets, which called for the release of some government critics who are now in prison (most notably former FM Alexander Arzumanyan). According to Postanjyan, she and her aide were jostled by police officers as they distributed the leaflets. The Police refused to confirm or deny Alternative's information, but told RFE/RL they are looking into Postanjyan's allegations.

15. (U) IRANIAN VP ATTENDS 4TH PAN-ARMENIAN GAMES

On August 18, Iranian Vice-President and Chairman of the Iranian Athletic Organization Mohammad Aliabadi arrived in Armenia to participate in the launch of the Fourth Pan-Armenian Games. The event gathered 2500 amateur athletes of Armenian descent from 94 cities around the world. Notably, the Iranian delegation was the largest, numbering 321 persons. Aliabadi met with President Kocharian, Deputy Prime Minister Hovik Abrahamian, Foreign Minister Vartan Oskanian, Sports and Youth Minister Armen Grigorian, and Armenian National Olympic Committee President Gagik Tsarukian. He also signed a 5-year Memorandum of Understanding between the Iranian Athletic Organization and the Armenian Sport and Youth Ministry. On August 20, after the signing ceremony, Aliabadi had a short press conference on the topic of sports. He also referred to a public statement by Secretary Rice on talks about sanctions against Iran. Aliabadi said that if the U.S. and its allies were capable of imposing sanctions, they would have done so in the course of the last 30 years.

16. (SBU) WHEN MINNOWS MATE: DASHINK/RAMKAVAR PARTY MERGER

On August 21, Nagorno-Karabagh's former military leader Samvel Babayan, whose minor Dashink party ran unsuccessfully for Armenian parliamentary seats in May 2007, confirmed reports that his party is in talks to merge with small, diaspora-linked Ramkavar Azatakan (or HRAK) and the virtually unknown National Rebirth parties. Media report the new party will bear Ramkavar's name and be led by Babayan. A Dashink spokesperson told the press that his party will likely meet for an extraordinary congress in September to seal the merger. Ramkavar's current leader Harutyun Arakelyan said that he did not mind ceding his powers, as long as HRAK got stronger. Like a penniless aristocrat marrying a rich commoner, the merger links Ramkavar's distinguished pedigree, dating back to Armenia's 1918 Republic, with Babayan's money and NK war hero credentials. Their de facto alliance in May 2007 yielded no electoral success, however.

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17. (SBU) RUSSIAN CELL FIRM HUNGRILY EYES ARMENIA'S VIVACELL

Russia's top cellular operator, Mobile TeleSystems (MTS), is reportedly in talks to buy Armenia's leading mobile network provider, K-Telecom, operator of the popular and successful local VivaCell network. K-Telecom, controlled by the Lebanese Fattouch Group, entered the Armenian market in 2005 and quickly overtook the stodgy former monopoly Armentel to seize a dominant market share in mobile telephony. Vivacell has been coy, but company sources have told us privately that a deal seems close. MTS' corporate parent, Sistema, confirmed its interest in mobile assets in the former Soviet republics, K-Telecom being one of the possible opportunities. Sector analysts estimate the value of K-Telecom, which currently has over 1 million subscribers, at around \$600 million. Last year Vimpelcom, MTS's key rival in Russia, bought Armenia's No.2 mobile provider Armentel for \$488 million. Vimpelcom's client base in the country stands at 530,000. K-Telecom is closely related, but corporately independent, of the Fattouch-owned cellular provider in Nagorno-Karabakh.

18. (U) NEW TAXPAYERS' HANDBOOK PUBLISHED

On August 10, the Armenian Commerce and Industrial Chamber presented a Taxpayers' Handbook, published with the support of the USAID. One thousand copies of the book will be disseminated among Armenian businessmen and entrepreneurs. The handbook will also be posted on the Chamber's and the State Taxation Service's websites. Martin Sarkisian, the chairman of the Commerce and Industrial Chamber, said the handbook will help make the tax authorities' performance more transparent.

19. (U) ARMENIAN ECONOMY GROWS 12 PERCENT IN JANUARY-JULY

The Armenian Statistical Service reports Armenia's economy grew 12.1 percent in January-July over the same period a year ago, and

amounted to \$3.6 billion (1USD equals to 356.7 AMD). Industrial output grew by only 1.3 percent, and agriculture grew by just 2.2 percent. The biggest growth was again in construction, which saw \$712 million in new investments. Armenia's total foreign trade in January-July rose 37 percent from a year ago to \$2.263 billion. Exports grew 21 percent to \$631 million, and imports were up 44.5 percent to \$1.632 billion.

110. (U) RUSSO-GEORGIAN FIRM BUYS DISPUTED GOLD COMPANY

The Russian firm Industrial Investors Group's Georgian subsidiary, Madneuli, signed a contract to buy the Canadian holding company that owns Ararat Gold Recovery Company (AGRC) on behalf of the Indian mining conglomerate Vedanta. The price has not been announced, but observers suspect it may surpass \$100 million. Meanwhile, the August 20 trial date to resolve an underlying legal dispute for AGRC's rights to its major mine passed without action, as neither party to the action bothered to show up. Armenian authorities have moved to seize and resell AGRC's mining rights, apparently to Madneuli, charging the Indian subsidiary with numerous counts of fraud, tax evasion, and other sins. Many believe, however, that the GOAM sold AGRC its mining rights at bargain basement prices when gold prices were quite low, and now is simply engineering a lucrative "do-over" now that the assets are worth vastly more.

111. (U) CANADIAN FIRM EXPLORES FOR NATURAL GAS

Canadian company Transeuro Energy is to start exploration in the Armavir region for possible natural gas deposits. It plans to spend about \$10 million for preliminary exploration and well-drilling. The first-stage works should last 3-4 months, which should clarify whether commercially-worthwhile deposits exist.

115. (U) EUROPEAN COMMISSION FUNDS EDUCATION

The Education and Science Ministry has announced that the European Union will give Armenia 15 million Euros to help it reform its vocational and pre-school education systems. The money will be spent in three stages in 2008-2010, and will be aimed at improving facilities, training 3500 teachers, and developing new teaching methodologies.

116. (U) CAN RUSSIA'S ALROSA RESTORE SPARKLE TO DIAMOND TRADE?

ALROSA chairman Sergei Vybornov met with Prime Minister Serge Sargsian to sign a partnership agreement between the GOAM and Russia's ALROSA CJSC, one of the world's leading gold and diamond mining companies. The joint venture will perform diamond cutting and jewelry manufacture. Armenia's diamond-cutting industry has suffered a major slump in the past two years, and the government hopes this new initiative will lead the troubled sector back to health.

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117. (U) EBRD LAUNCHES SME LENDING PROGRAM

The European Bank for Reconstruction and Development (EBRD) has signed a contract with Armenian ACBA Credit Agricole Bank CJSC to provide 12 million Euros to finance an SME lending program. EBRD will provide half of the total loan amount, with the remaining Euro 6 million coming from Citigroup. This is the first syndicated loan to a financial institution in Armenia, and will be directed to SME lending both in urban and rural areas.

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